

**VILLAGE OF EAST PALESTINE**  
**ANNUAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

*Wolfe, Wilson, & Phillips, Inc.*  
*37 South Seventh Street*  
*Zanesville, Ohio 43701*





# Dave Yost • Auditor of State

Village Council  
Village of East Palestine  
144 North Market Street  
East Palestine, Ohio 44413

We have reviewed the *Independent Auditors' Report* of the Village of East Palestine, Columbiana County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of East Palestine is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

June 21, 2012

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**VILLAGE OF EAST PALESTINE  
COLUMBIANA COUNTY**

**TABLE OF CONTENTS**

<u>Title</u>	<u>Page</u>
Independent Auditors' Report.....	1
Management Discussion and Analysis.....	3
<b>Government-wide Financial Statements:</b>	
Statement of Nets Assets Year Ended December 31, 2011.....	13
Statement of Activities Year Ended December 31, 2011.....	14
<b>Fund Financial Statements:</b>	
<b>Governmental Funds</b>	
Balance Sheet, Year Ended December 31, 2011.....	16
Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activites.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance, Year Ended December 31, 2011.....	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	22
Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances- Budget and Actual (Non-GAAP Budgetary Basis) - General Fund, Year Ended December 31, 2011.....	23
Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances- Budget and Actual (Non-GAAP Budgetary Basis) - CDBG Fund, Year Ended December 31, 2011.....	24
<b>Proprietary Funds</b>	
Statement of Net Assets, Year Ended December 31, 2011.....	25
Statement of Revenues, Expenses and Changes in Fund Net Assets, Year Ended December 31, 2011.....	26
Statement of Cash Flows, Year Ended December 31, 2011.....	27
Notes to the Financial Statements.....	28
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By Government Auditing Standards.....	59
Independents Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	61
Schedule of Findings and Questioned Costs.....	63
Schedule of Federal Awards.....	64
Notes to Schedule of Federal Awards.....	65

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**WOLFE, WILSON, & PHILLIPS, INC.**  
**37 SOUTH SEVENTH STREET**  
**ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT**

Village of East Palestine  
Columbiana County  
144 North Market Street  
East Palestine, Ohio 44413

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village of East Palestine, Columbiana County as of and for the year ended December 31, 2011, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village of East Palestine, Columbiana County as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and CDBG Fund for the year then ended in conformity generally accepted accounting principles accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 2, 2012, on our consideration of the Village of East Palestine's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

As described in Note 4, during 2011 the Village of East Palestine adopted Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis as listed in the table of contents to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
May 2, 2012

***VILLAGE OF EAST PALESTINE, OHIO***

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## VILLAGE OF EAST PALESTINE, OHIO

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*Management's Discussion and Analysis  
For the Year Ended December 31, 2011*

*Unaudited*

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The discussion and analysis of the Village of East Palestine's financial performance provides an overall review of the Village's financial activities for the fiscal year ended December 31, 2011. The intent of this discussion and analysis is to look at the Village's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Village's financial performance.

### FINANCIAL HIGHLIGHTS

Key financial highlights for 2011 are as follows:

- ❑ In total, net assets increased \$621,454. Net assets of governmental activities increased \$407,165, which represents an 8% change from 2010. Net assets of business-type activities increased \$214,289 or 7% from 2010.
- ❑ General revenues accounted for \$1,832,858 in revenue or 36% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,193,429, 64% of total revenues of \$5,026,287.
- ❑ The Village had \$2,651,143 in expenses related to governmental activities; only \$1,225,450 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$1,832,858 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$1,507,140 in revenues and \$1,365,845 in expenditures. The general fund's fund balance increased \$36,323 to a balance of \$2,646,003.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the Village:

These statements are as follows:

*The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the Village's overall financial status.

*The Fund Financial Statements* – These statements focus on individual parts of the Village, reporting the Village's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

## VILLAGE OF EAST PALESTINE, OHIO

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*Management's Discussion and Analysis  
For the Year Ended December 31, 2011*

*Unaudited*

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### **Government-wide Statements**

The government-wide statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Village's net assets and how they have changed. Net-assets (the difference between the Village's assets and liabilities) are one way to measure the Village's financial health or position.

- Over time, increases or decreases in the Village's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Village you need to consider additional nonfinancial factors such as the Village's tax base and the condition of the Village's capital assets

The government-wide financial statements of the Village are divided into two categories:

- *Governmental Activities* – Most of the Village's program's and services are reported here including security of persons and property, public health and welfare services, leisure time activities, community environment, transportation and general government.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The Village's water and wastewater services are reported as business-type activities.

### **Fund Financial Statements**

Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. The fund financial statements provide more detailed information about the Village's most significant funds, not the Village as a whole.

*Governmental Funds* – Most of the Village's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

## VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2011**

**Unaudited**

*Proprietary Funds* – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The proprietary fund financial statements provide separate information for the Water and Wastewater funds, both of which are considered major funds.

### FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

The following table provides a summary of the Village's net assets for 2011 compared to 2010.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$2,126,738	\$2,275,904	\$677,919	\$510,400	\$2,804,657	\$2,786,304
Capital assets, Net	5,445,862	5,043,642	9,395,548	9,247,673	14,841,410	14,291,315
Total assets	<u>7,572,600</u>	<u>7,319,546</u>	<u>10,073,467</u>	<u>9,758,073</u>	<u>17,646,067</u>	<u>17,077,619</u>
Long-term debt outstanding	1,171,500	1,331,492	6,777,823	6,736,544	7,949,323	8,068,036
Other liabilities	748,545	742,664	132,120	72,294	880,665	814,958
Total liabilities	<u>1,920,045</u>	<u>2,074,156</u>	<u>6,909,943</u>	<u>6,808,838</u>	<u>8,829,988</u>	<u>8,882,994</u>
Net assets						
Invested in capital assets, net of related debt	4,362,386	3,940,447	2,770,413	2,613,038	7,132,799	6,553,485
Restricted	369,977	3,613,939	0	0	369,977	3,613,939
Unrestricted	920,192	(2,308,996)	393,111	336,197	1,313,303	(1,972,799)
Total net assets	<u>\$5,652,555</u>	<u>\$5,245,390</u>	<u>\$3,163,524</u>	<u>\$2,949,235</u>	<u>\$8,816,079</u>	<u>\$8,194,625</u>

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## VILLAGE OF EAST PALESTINE, OHIO

### *Management's Discussion and Analysis For the Year Ended December 31, 2011*

*Unaudited*

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2011 compared to 2010:

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for Services and Sales	\$423,373	\$479,503	\$1,846,236	\$1,763,080	\$2,269,609	\$2,242,583
Operating Grants and Contributions	292,601	326,359	0	0	292,601	326,359
Capital Grants and Contributions	509,476	0	121,743	59,071	631,219	59,071
Total Program revenues	1,225,450	805,862	1,967,979	1,822,151	3,193,429	2,628,013
General revenues:						
Property Taxes	672,161	483,716	0	0	672,161	483,716
Income Taxes	887,182	853,290	0	0	887,182	853,290
Other Local Taxes	654	440	0	0	654	440
Intergovernmental Revenues, Unrestricted	201,290	210,187	0	0	201,290	210,187
Investment Earnings	620	1,059	0	0	620	1,059
Miscellaneous	70,951	230,476	0	0	70,951	230,476
Total General revenues	1,832,858	1,779,168	0	0	1,832,858	1,779,168
Total revenues	3,058,308	2,585,030	1,967,979	1,822,151	5,026,287	4,407,181
Program Expenses						
Security of Persons and Property	1,113,201	1,106,887	0	0	1,113,201	1,106,887
Leisure Time Activities	243,110	326,145	0	0	243,110	326,145
Community Environment	318,545	162,713	0	0	318,545	162,713
Public Health and Welfare	60,718	70,781	0	0	60,718	70,781
Transportation	315,023	387,950	0	0	315,023	387,950
General Government	571,021	573,272	0	0	571,021	573,272
Interest and Fiscal Charges	29,525	31,870	0	0	29,525	31,870
Water	0	0	699,157	428,083	699,157	428,083
Wastewater	0	0	1,054,533	928,759	1,054,533	928,759
Total expenses	2,651,143	2,659,618	1,753,690	1,356,842	4,404,833	4,016,460
Total Change in Net Assets	407,165	(74,588)	214,289	465,309	621,454	390,721
Beginning Net Assets	5,245,390	5,319,978	2,949,235	2,483,926	8,194,625	7,803,904
Ending Net Assets	\$5,652,555	\$5,245,390	\$3,163,524	\$2,949,235	\$8,816,079	\$8,194,625

### ***Governmental Activities***

Net assets of the Village's governmental activities increased \$407,165 or 8% from the previous year. Ohio Public Works Commission and Ohio Department of Transportation Grants received for street improvements resulted in the increase in capital grants and contributions. Collection of the street capital improvement levy began in 2011, resulting in an increase in property taxes. Expenses remained consistent with the previous year.

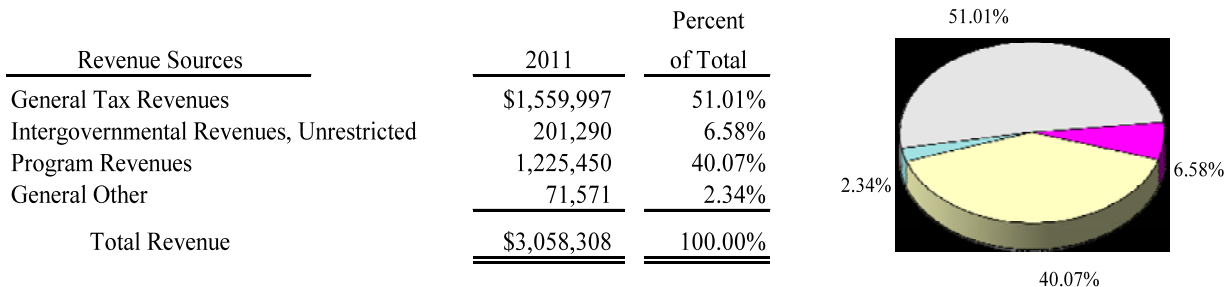
## VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2011**

**Unaudited**

The Village receives an income tax, which is based on 1% of all salaries, wages, commissions and other compensation and on net profits earned from residents living within the Village.

Income taxes and property taxes made up 29% and 22% respectively of revenues for governmental activities for the Village in 2011. The Village's reliance upon tax revenues is demonstrated by the following graph indicating 51% of total revenues from general tax revenues:



**Business-Type Activities**

Net assets of the business-type activities increased \$214,289. This was a 7% increase from the previous year.

**FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS**

The Village's governmental funds reported a combined fund balance of \$1,032,169, which is an increase from last year's balance of \$847,720. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2011 and 2010:

	Fund Balance/Deficit December 31, 2011	Restated Fund Balance/Deficit December 31, 2010	Increase (Decrease)
General	\$2,646,003	\$2,609,680	\$36,323
CDBG	33,199	67,431	(34,232)
Capital Improvement	(2,128,244)	(2,128,019)	(225)
Street Levy Capital Replacement	97,787	0	97,787
Other Governmental	383,424	298,628	84,796
Total	\$1,032,169	\$847,720	\$184,449

## **VILLAGE OF EAST PALESTINE, OHIO**

***Management's Discussion and Analysis  
For the Year Ended December 31, 2011***

***Unaudited***

General Fund – The Village's General Fund balance change is due to several factors. The tables that follow assist in illustrating the financial activities of the General Fund:

	2011 Revenues	2010 Revenues	Increase (Decrease)
Taxes	\$1,031,438	\$950,018	\$81,420
Intergovernmental Revenue	119,059	129,111	(10,052)
Charges for Services	218,765	263,573	(44,808)
Licenses and Permits	74,733	81,505	(6,772)
Investment Earnings	572	810	(238)
Fines and Forfeitures	6,476	6,298	178
All Other Revenue	56,097	68,498	(12,401)
Total	\$1,507,140	\$1,499,813	\$7,327

General Fund revenues in 2011 remained stable, increasing \$7,327, or less than 1%. A decrease in ambulance runs resulted in the decrease in charges for services.

	2011 Expenditures	2010 Expenditures	Increase (Decrease)
Security of Persons and Property	\$884,720	\$879,378	\$5,342
Public Health and Welfare	13,488	28,095	(14,607)
General Government	453,441	434,076	19,365
Debt Service:			
Principal Retirement	11,611	2,472	9,139
Interest and Fiscal Charges	2,585	2,724	(139)
Total	\$1,365,845	\$1,346,745	\$19,100

General Fund expenditures in 2011 increased \$19,100 or 1% from 2010.

*Community Development Block Grant (CDBG) Fund* – The Village's CDBG Fund balance decreased from \$67,431 to an end of year balance of \$33,199.

*Capital Improvement Fund* - The Capital Improvement Fund balance changed less than 1% to a deficit fund balance of \$2,128,244. An interfund loan payable to the General Fund is the primary factor contributing to this fund's large negative fund balance.

*Street Levy Capital Replacement Fund* - The Street Levy Capital Replacement Fund reported an increase in fund balance of \$97,787.

## **VILLAGE OF EAST PALESTINE, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2011***

***Unaudited***

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The Village's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2011 the Village amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue of \$1,443,849 was not significantly different from original or final budget estimates. Budget basis expenditures of \$1,344,010 were 7% lower than original and final budget estimates due to an overall controlling of costs. The General Fund had an adequate fund balance to cover expenditures.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### ***Capital Assets***

At the end of 2011 the Village had \$14,841,410 net of accumulated depreciation invested in land, buildings, improvements, machinery, equipment and infrastructure. Of this total, \$5,445,862 was related to governmental activities and \$9,395,548 to the business-type activities. The following table shows fiscal years 2011 and 2010 balances:

	Governmental Activities		Increase (Decrease)
	2011	2010	
Land	\$266,674	\$266,674	\$0
Construction In Progress	719,577	125,858	593,719
Buildings	978,454	978,454	0
Improvements Other than Buildings	179,995	179,995	0
Machinery and Equipment	2,649,573	2,653,928	(4,355)
Infrastructure	3,534,630	3,534,630	0
Less: Accumulated Depreciation	(2,883,041)	(2,695,897)	(187,144)
Totals	<u>\$5,445,862</u>	<u>\$5,043,642</u>	<u>\$402,220</u>

Roadway improvements on Brookdale Avenue, Martin Street and Pleasant Drive resulted in the increase in construction in progress.

## VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2011**

**Unaudited**

	Business-Type Activities		Increase (Decrease)
	2011	2010	
Land	\$177,511	\$177,511	\$0
Construction in Progress	520,625	161,762	358,863
Buildings	1,973,207	1,973,207	0
Improvements Other than Buildings	452,160	452,160	0
Machinery and Equipment	1,375,750	1,287,612	88,138
Infrastructure	11,167,067	11,167,067	0
Less: Accumulated Depreciation	(6,270,772)	(5,971,646)	(299,126)
Totals	\$9,395,548	\$9,247,673	\$147,875

A water booster project as well as a reservoir improvement project resulted in the increase in construction in progress. Additional information on the Village's capital assets can be found in Note 10.

### **Debt**

At December 31, 2011, the Village had \$3,040,000 in general obligation bonds outstanding, \$225,000 due within one year. The following table summarizes the Village's debt outstanding as of December 31, 2011 and 2010:

	2011	2010
Governmental Activities:		
Ohio Public Works Commission Loan	\$265,858	\$273,858
West Street Bridge Project Loan	252,225	264,792
ODOT Street Improvement Loan	366,974	452,088
Long Term Promissory Note	130,926	108,188
Capital Leases	0	4,269
Compensated Absences	155,517	228,297
Total Governmental Activities	1,171,500	1,331,492
Business-Type Activities:		
General Obligation Bonds	3,040,000	3,080,000
Ohio Public Works Commission Loans	701,182	739,910
Ohio Water Development Authority Loans	2,816,461	2,814,725
Capital Leases	67,492	0
Compensated Absences	152,688	101,909
Total Business-Type Activities	6,777,823	6,736,544
Totals	\$7,949,323	\$8,068,036

Under current state statutes, the Village's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2011, the Village's outstanding debt was below the legal limit. Additional information on the Village's long-term debt can be found in Note 13.



## **VILLAGE OF EAST PALESTINE, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2011***

***Unaudited***

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### **ECONOMIC FACTORS**

At one time, the Village of East Palestine was known for its pottery production with the potteries being the largest employers in the Village. Currently the Village has only one pottery left. The Village has five industrial plants with the remaining businesses being mainly sole-proprietor businesses.

The residents of East Palestine passed a 5 mill street levy in 2010; with collections starting in 2011 estimated collection is \$296,100. In 2011 we repaved East and West Martin St. In 2012 the Street Levy will be used on the following road resurfacing projects: Brookdale E. & W. Main St., S. Market St. Covington Nursing Home/Assistant Living had an expansion of 15 beds; cost of construction was 1.7 million dollars.

The Village's 2012 budget is very conservative. We are planning a reservoir project and possible expansion of water and sewer lines up to State Route 14 in the near future.

The school district is the Village's largest withholding employer of Village Income Tax.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Traci Thompson, Finance Director of the Village of East Palestine.

***VILLAGE OF EAST PALESTINE, OHIO***

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## VILLAGE OF EAST PALESTINE, OHIO

### *Statement of Net Assets* *December 31, 2011*

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 580,254	\$ 413,687	\$ 993,941
Investments	132,882	0	132,882
Receivables:			
Taxes	1,012,993	0	1,012,993
Accounts	69,276	283,409	352,685
Intergovernmental	260,408	0	260,408
Internal Balances	35,000	(35,000)	0
Inventory of Supplies at Cost	15,379	7,166	22,545
Prepaid Items	20,546	8,657	29,203
Capital Assets, Net	5,445,862	9,395,548	14,841,410
<b>Total Assets</b>	7,572,600	10,073,467	17,646,067
<b>Liabilities:</b>			
Accounts Payable	28,827	89,613	118,440
Accrued Wages and Benefits	71,648	20,472	92,120
Intergovernmental Payable	2,933	0	2,933
Deferred Revenue	628,518	0	628,518
Accrued Interest Payable	16,619	22,035	38,654
Noncurrent liabilities:			
Due within one year	199,263	522,868	722,131
Due in more than one year	972,237	6,254,955	7,227,192
<b>Total Liabilities</b>	1,920,045	6,909,943	8,829,988
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	4,362,386	2,770,413	7,132,799
Restricted For:			
Other Purposes	369,977	0	369,977
Unrestricted	920,192	393,111	1,313,303
<b>Total Net Assets</b>	\$ 5,652,555	\$ 3,163,524	\$ 8,816,079

See accompanying notes to the basic financial statements

## VILLAGE OF EAST PALESTINE, OHIO

### *Statement of Activities* *For the Year Ended December 31, 2011*

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Security of Persons and Property	\$ 1,113,201	\$ 233,533	\$ 1,244	\$ 8,573
Leisure Time Activities	243,110	95,756	0	0
Community Environment	318,545	0	0	0
Public Health and Welfare	60,718	23,605	0	0
Transportation	315,023	0	291,357	500,903
General Government	571,021	70,479	0	0
Interest and Fiscal Charges	29,525	0	0	0
<b>Total Governmental Activities</b>	<b>2,651,143</b>	<b>423,373</b>	<b>292,601</b>	<b>509,476</b>
<b>Business-Type Activities:</b>				
Water	699,157	652,636	0	65,029
Wastewater	1,054,533	1,193,600	0	56,714
<b>Total Business-Type Activities</b>	<b>1,753,690</b>	<b>1,846,236</b>	<b>0</b>	<b>121,743</b>
<b>Totals</b>	<b>\$ 4,404,833</b>	<b>\$ 2,269,609</b>	<b>\$ 292,601</b>	<b>\$ 631,219</b>

#### **General Revenues**

Property Taxes Levied for:

- General Purposes
- Special Purposes

Income Tax

Other Local Taxes

Intergovernmental Revenues, Unrestricted

Investment Earnings

Miscellaneous

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

**VILLAGE OF EAST PALESTINE, OHIO**

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Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (869,851)	\$ 0	\$ (869,851)
(147,354)	0	(147,354)
(318,545)	0	(318,545)
(37,113)	0	(37,113)
477,237	0	477,237
(500,542)	0	(500,542)
(29,525)	0	(29,525)
<u>(1,425,693)</u>	<u>0</u>	<u>(1,425,693)</u>
0	18,508	18,508
0	195,781	195,781
<u>0</u>	<u>214,289</u>	<u>214,289</u>
<u>(1,425,693)</u>	<u>214,289</u>	<u>(1,211,404)</u>
111,977	0	111,977
560,184	0	560,184
887,182	0	887,182
654	0	654
201,290	0	201,290
620	0	620
70,951	0	70,951
<u>1,832,858</u>	<u>0</u>	<u>1,832,858</u>
407,165	214,289	621,454
<u>5,245,390</u>	<u>2,949,235</u>	<u>8,194,625</u>
<u>\$ 5,652,555</u>	<u>\$ 3,163,524</u>	<u>\$ 8,816,079</u>

**VILLAGE OF EAST PALESTINE, OHIO**

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**Balance Sheet**  
**Governmental Funds**  
**December 31, 2011**

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	General	CDBG	Capital Improvement
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 138,234	\$ 16,695	\$ 10,892
Investments	100,464	0	0
Receivables:			
Taxes	394,649	0	0
Accounts	69,276	0	0
Intergovernmental	55,273	16,504	0
Interfund Loans Receivables	2,174,136	0	0
Inventory of Supplies	0	0	0
Prepaid Items	20,130	0	0
<b>Total Assets</b>	<u><u>\$ 2,952,162</u></u>	<u><u>\$ 33,199</u></u>	<u><u>\$ 10,892</u></u>
<b>Liabilities:</b>			
Accounts Payable	\$ 16,261	\$ 0	\$ 0
Accrued Wages and Benefits Payable	56,030	0	0
Intergovernmental Payable	2,933	0	0
Interfund Loans Payable	0	0	2,139,136
Deferred Revenue	230,935	0	0
<b>Total Liabilities</b>	<u><u>306,159</u></u>	<u><u>0</u></u>	<u><u>2,139,136</u></u>
<b>Fund Balance:</b>			
Nonspendable	20,130	0	0
Restricted	0	33,199	0
Assigned	2,528	0	0
Unassigned	2,623,345	0	(2,128,244)
<b>Total Fund Balance</b>	<u><u>2,646,003</u></u>	<u><u>33,199</u></u>	<u><u>(2,128,244)</u></u>
<b>Total Liabilities and Fund Balance</b>	<u><u>\$ 2,952,162</u></u>	<u><u>\$ 33,199</u></u>	<u><u>\$ 10,892</u></u>

See accompanying notes to the basic financial statements

**VILLAGE OF EAST PALESTINE, OHIO**

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Street Levy Capital Replacement	Other Governmental Funds	Total Governmental Funds
\$ 99,726	\$ 314,707	\$ 580,254
0	32,418	132,882
286,348	331,996	1,012,993
0	0	69,276
23,087	165,544	260,408
0	0	2,174,136
0	15,379	15,379
0	416	20,546
<u>\$ 409,161</u>	<u>\$ 860,460</u>	<u>\$ 4,265,874</u>
\$ 1,939	\$ 10,627	\$ 28,827
0	15,618	71,648
0	0	2,933
0	0	2,139,136
<u>309,435</u>	<u>450,791</u>	<u>991,161</u>
<u>311,374</u>	<u>477,036</u>	<u>3,233,705</u>
0	15,795	35,925
97,787	367,629	498,615
0	0	2,528
0	0	495,101
<u>97,787</u>	<u>383,424</u>	<u>1,032,169</u>
<u>\$ 409,161</u>	<u>\$ 860,460</u>	<u>\$ 4,265,874</u>

**VILLAGE OF EAST PALESTINE, OHIO**

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***Reconciliation Of Total Governmental Fund Balances  
To Net Assets Of Governmental Activities  
December 31, 2011***

---

**Total Governmental Fund Balances** \$ 1,032,169

*Amounts reported for governmental activities in the  
statement of net assets are different because*

Capital Assets used in governmental activities are not  
resources and therefore are not reported in the funds. 5,445,862

Other long-term assets are not available to pay for current-  
period expenditures and therefore are deferred in the funds. 362,643

Long-term liabilities, including loans payable, are not due  
and payable in the current period and therefore are not  
reported in the funds.

Compensated Absences Payable	(155,517)	
OPWC Loans Payable	(265,858)	
West Street Bridge Project Loan	(252,225)	
ODOT Loan	(366,974)	
Long Term Promissory Notes	(130,926)	
Accrued Interest Payable	(16,619)	(1,188,119)

***Net Assets of Governmental Activities*** \$ 5,652,555

See accompanying notes to the basic financial statements



***VILLAGE OF EAST PALESTINE, OHIO***

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## VILLAGE OF EAST PALESTINE, OHIO

### Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2011

	General	CDBG	Capital Improvement
<b>Revenues:</b>			
Taxes	\$ 1,031,438	\$ 0	\$ 0
Intergovernmental Revenues	119,059	284,313	232,011
Charges for Services	218,765	0	0
Licenses and Permits	74,733	0	0
Investment Earnings	572	0	0
Fines and Forfeitures	6,476	0	0
All Other Revenue	56,097	0	0
<b>Total Revenue</b>	<u>1,507,140</u>	<u>284,313</u>	<u>232,011</u>
<b>Expenditures:</b>			
Current:			
Security of Persons and Property	884,720	0	0
Public Health and Welfare	13,488	0	0
Leisure Time Activities	0	0	0
Community Environment	0	318,545	0
Transportation	0	0	0
General Government	453,441	0	0
Capital Outlay	0	0	237,034
Debt Service:			
Principal Retirement	11,611	0	56,681
Interest & Fiscal Charges	2,585	0	27,493
<b>Total Expenditures</b>	<u>1,365,845</u>	<u>318,545</u>	<u>321,208</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	141,295	(34,232)	(89,197)
<b>Other Financing Sources (Uses):</b>			
Loan Proceeds	0	0	0
Transfers In	0	0	88,972
Transfers Out	(104,972)	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>(104,972)</u>	<u>0</u>	<u>88,972</u>
Net Change in Fund Balance	36,323	(34,232)	(225)
<b>Fund Balance (Deficit) at Beginning of Year - Restated</b>	2,609,680	67,431	(2,128,019)
Increase in Inventory	0	0	0
<b>Fund Balance (Deficit) End of Year</b>	<u>\$ 2,646,003</u>	<u>\$ 33,199</u>	<u>\$ (2,128,244)</u>

See accompanying notes to the basic financial statements

**VILLAGE OF EAST PALESTINE, OHIO**

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Street Levy Capital Replacement	Other Governmental Funds	Total Governmental Funds
\$ 265,308	\$ 304,761	\$ 1,601,507
315,066	352,448	1,302,897
0	122,807	341,572
0	0	74,733
0	48	620
0	592	7,068
218	14,636	70,951
<u>580,592</u>	<u>795,292</u>	<u>3,399,348</u>
0	117,759	1,002,479
0	47,230	60,718
0	286,428	286,428
0	0	318,545
0	217,541	217,541
0	0	453,441
482,805	50,052	769,891
0	75,651	143,943
0	991	31,069
<u>482,805</u>	<u>795,652</u>	<u>3,284,055</u>
97,787	(360)	115,293
0	61,000	61,000
0	16,000	104,972
0	0	(104,972)
<u>0</u>	<u>77,000</u>	<u>61,000</u>
97,787	76,640	176,293
0	298,628	847,720
0	8,156	8,156
<u>\$ 97,787</u>	<u>\$ 383,424</u>	<u>\$ 1,032,169</u>

**VILLAGE OF EAST PALESTINE, OHIO**

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***Reconciliation Of The Statement Of Revenues, Expenditures  
And Changes In Fund Balances Of Governmental Funds  
To The Statement Of Activities  
For The Fiscal Year Ended December 31, 2011***

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**Net Change in Fund Balances - Total Governmental Funds** \$ 176,293

***Amounts reported for governmental activities in the statement of activities are different because***

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Outlay	666,909	
Depreciation Expense	<u>(256,935)</u>	409,974

The net effect of various miscellaneous transactions involving capital assets (i.e. disposals and donations) is to increase net assets.

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.	(7,754)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(341,040)
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The issuance of long-term debt (e.g. notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on net assets.

Long Term Promissory Note	(61,000)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

OPWC Loan Retirement	8,000	
West Street Bridge Project Loan Retirement	12,567	
ODOT Loan Retirement	85,114	
Long Term Promissory Note Retirement	38,262	
Capital Lease Payment	<u>4,269</u>	148,212

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.	1,544
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	72,780	
Change in Inventory	<u>8,156</u>	<u>80,936</u>

<b><i>Change in Net Assets of Governmental Activities</i></b>	<b><u>\$ 407,165</u></b>
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See accompanying notes to the basic financial statements

## VILLAGE OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Year Ended December 31, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 972,604	\$ 976,942	\$ 1,003,601	\$ 26,659
Intergovernmental Revenue	104,610	105,077	123,642	18,565
Charges for Services	242,018	243,098	218,765	(24,333)
Licenses and Permits	77,654	78,000	71,831	(6,169)
Investment Earnings	1,991	2,000	572	(1,428)
Fines and Forfeitures	5,973	6,000	6,404	404
All Other Revenues	34,845	35,000	19,034	(15,966)
Total Revenues	<u>1,439,695</u>	<u>1,446,117</u>	<u>1,443,849</u>	<u>(2,268)</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	951,934	954,225	897,530	56,695
Public Health and Welfare	19,823	19,871	14,501	5,370
General Government	462,849	463,963	417,783	46,180
Debt Service:				
Principal Retirement	11,607	11,635	11,611	24
Interest and Fiscal Charges	2,630	2,636	2,585	51
Total Expenditures	<u>1,448,843</u>	<u>1,452,330</u>	<u>1,344,010</u>	<u>108,320</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	(9,148)	(6,213)	99,839	106,052
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(104,972)	(104,972)	(104,972)	0
Total Other Financing Sources (Uses):	<u>(104,972)</u>	<u>(104,972)</u>	<u>(104,972)</u>	<u>0</u>
Net Change in Fund Balance	(114,120)	(111,185)	(5,133)	106,052
Fund Balance at Beginning of Year	213,981	213,981	213,981	0
Prior Year Encumbrances	3,560	3,560	3,560	0
Fund Balance at End of Year	<u>\$ 103,421</u>	<u>\$ 106,356</u>	<u>\$ 212,408</u>	<u>\$ 106,052</u>

See accompanying notes to the basic financial statements

## VILLAGE OF EAST PALESTINE, OHIO

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***Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
Special Revenue Fund - Community Development Block Grant (CDBG) Fund  
For the Year Ended December 31, 2011***

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	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Intergovernmental Revenue	\$ 250,000	\$ 267,809	\$ 267,809	\$ 0
Total Revenues	250,000	267,809	267,809	0
<b>Expenditures:</b>				
Current:				
Community Environment	250,000	318,545	318,545	0
Total Expenditures	250,000	318,545	318,545	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(50,736)	(50,736)	0
Fund Balance at Beginning of Year	67,431	67,431	67,431	0
Fund Balance at End of Year	\$ 67,431	\$ 16,695	\$ 16,695	\$ 0

See accompanying notes to the basic financial statements

**VILLAGE OF EAST PALESTINE, OHIO**

**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2011**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 235,021	\$ 178,666	\$ 413,687
Receivables:			
Accounts	137,926	145,483	283,409
Inventory of Supplies at Cost	2,558	4,608	7,166
Prepaid Items	3,523	5,134	8,657
Total Current Assets	<u>379,028</u>	<u>333,891</u>	<u>712,919</u>
Noncurrent Assets:			
Capital Assets, Net	2,134,217	7,261,331	9,395,548
Total Noncurrent Assets	<u>2,134,217</u>	<u>7,261,331</u>	<u>9,395,548</u>
Total Assets	<u>2,513,245</u>	<u>7,595,222</u>	<u>10,108,467</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	75,759	13,854	89,613
Accrued Wages and Benefits	6,785	13,687	20,472
Compensated Absences Payable - Current	8,019	12,156	20,175
Accrued Interest Payable	3,529	18,506	22,035
Capital Leases Payable - Current	8,006	8,006	16,012
General Obligation Bonds Payable - Current	22,500	202,500	225,000
OWDA Loans Payable - Current	43,313	179,640	222,953
OPWC Loans Payable - Current	3,534	35,194	38,728
Total Current Liabilities	<u>171,445</u>	<u>483,543</u>	<u>654,988</u>
Noncurrent Liabilities:			
Capital Leases Payable	25,740	25,740	51,480
General Obligation Bonds Payable	147,750	2,667,250	2,815,000
OWDA Loans Payable	369,237	2,224,271	2,593,508
OPWC Loans Payable	93,629	568,825	662,454
Interfund Loan Payable	10,000	25,000	35,000
Compensated Absences Payable	58,039	74,474	132,513
Total Noncurrent Liabilities	<u>704,395</u>	<u>5,585,560</u>	<u>6,289,955</u>
<b>Total Liabilities</b>	<u>875,840</u>	<u>6,069,103</u>	<u>6,944,943</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	1,420,508	1,349,905	2,770,413
Unrestricted	216,897	176,214	393,111
Total Net Assets	<u>\$ 1,637,405</u>	<u>\$ 1,526,119</u>	<u>\$ 3,163,524</u>

See accompanying notes to the basic financial statements

**VILLAGE OF EAST PALESTINE, OHIO**

**Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2011**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	
<b>Operating Revenues:</b>			
Charges for Services	\$ 582,095	\$ 1,190,015	\$ 1,772,110
<b>Total Operating Revenues</b>	582,095	1,190,015	1,772,110
<b>Operating Expenses:</b>			
Personal Services	296,855	355,293	652,148
Contractual Services	113,946	181,568	295,514
Materials and Supplies	77,981	65,689	143,670
Depreciation	80,400	237,678	318,078
<b>Total Operating Expenses</b>	569,182	840,228	1,409,410
<b>Operating Income</b>	12,913	349,787	362,700
<b>Non-Operating Revenue (Expenses):</b>			
Interest and Fiscal Charges	(129,652)	(214,126)	(343,778)
Loss on Disposal of Capital Assets	(224)	0	(224)
Other Nonoperating Revenue	70,541	3,585	74,126
Other Nonoperating Expense	(99)	(179)	(278)
<b>Total Non-Operating Revenues (Expenses)</b>	(59,434)	(210,720)	(270,154)
<b>Income (Loss) Before Contributions</b>	(46,521)	139,067	92,546
<b>Contributions:</b>			
Capital Contributions	65,029	56,714	121,743
<b>Total Contributions</b>	65,029	56,714	121,743
<b>Change in Net Assets</b>	18,508	195,781	214,289
<b>Net Assets Beginning of Year</b>	1,618,897	1,330,338	2,949,235
<b>Net Assets End of Year</b>	\$ 1,637,405	\$ 1,526,119	\$ 3,163,524

See accompanying notes to the basic financial statements



## VILLAGE OF EAST PALESTINE, OHIO

### ***Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2011***

	Business-Type Activities		Totals
	Enterprise Funds		
	Water	Wastewater	
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$653,729	\$1,194,839	\$1,848,568
Cash Payments for Goods and Services	(180,465)	(250,545)	(431,010)
Cash Payments to Employees	(288,599)	(320,183)	(608,782)
Net Cash Provided by Operating Activities	184,665	624,111	808,776
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(258,029)	(67,373)	(325,402)
Capital Contributions	0	56,714	56,714
Principal Paid on Ohio Water Development Authority Loan	(46,248)	(179,636)	(225,884)
Proceeds from Ohio Water Development Authority Loan	227,620	0	227,620
Principal Paid on General Obligation Bond	(21,750)	(178,250)	(200,000)
Principal Paid on Ohio Public Works Commission Loan	(3,534)	(35,194)	(38,728)
Interest Paid on All Debt	(15,865)	(173,036)	(188,901)
Net Cash Used by Capital and Related Financing Activities	(117,806)	(576,775)	(694,581)
Increase in Cash and Cash Equivalents	66,859	47,336	114,195
Cash and Cash Equivalents at Beginning of Year	168,162	131,330	299,492
Cash and Cash Equivalents at End of Year	\$235,021	\$178,666	\$413,687
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided by Operating Activities:</u>			
Operating Income	\$12,913	\$349,787	\$362,700
Adjustments to Reconcile Operating Income to			
Net Cash Provided by Operating Activities:			
Depreciation Expense	80,400	237,678	318,078
Miscellaneous Nonoperating Revenue	70,676	3,738	74,414
Miscellaneous Nonoperating Expense	(99)	(179)	(278)
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	958	1,086	2,044
Decrease in Inventory	10,748	131	10,879
Increase in Prepaid Items	(1,091)	(415)	(1,506)
Increase (Decrease) in Accounts Payable	1,702	(415)	1,287
Decrease in Intergovernmental Payable	0	(2,600)	(2,600)
Decrease in Accrued Wages and Benefits	(4,670)	(2,351)	(7,021)
Increase in Compensated Absences	13,128	37,651	50,779
Total Adjustments	171,752	274,324	446,076
Net Cash Provided by Operating Activities	\$184,665	\$624,111	\$808,776

See accompanying notes to the basic financial statements

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. Reporting Entity**

The Village of East Palestine, Ohio (the "Village") is a home rule municipal corporation created under the laws of the State of Ohio. East Palestine was first incorporated as a village on February 27, 1876. The Village currently operates under and is governed by its own Charter. The current Charter, which provides for a Council-Village Manager form of government, was adopted in 1990.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (the "GASB") Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the Village (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the Village's ability to impose its will over the organization, or the possibility that the organization will provide a financial benefit to or impose a financial burden on the Village. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the Village's reporting entity. Based on the foregoing, the reporting entity of the Village includes the following services: police and fire protection, emergency medical, parks, recreation, planning, zoning, street maintenance and other governmental services. In addition, the Village owns and operates a water treatment and distribution system and a wastewater treatment and collection system, which are reported as enterprise funds.

The accounting policies and financial reporting practices of the Village conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies:

##### **B. Basis of Presentation - Fund Accounting**

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the basic financial statements. The following fund types are used by the Village:

***Governmental Funds*** - The governmental funds are those funds through which most governmental functions are typically financed. The acquisition, use and balances of the Village's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the Village's major governmental funds:

**General Fund** - This fund is used to account for all financial resources except those resources accounted for in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio and the provisions of the Village Charter.

## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2011*

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **B. Basis of Presentation - Fund Accounting** (Continued)

Community Development Block Grant (CDBG) Fund - This fund accounts for federal grants administered through the State which are designated for community and environmental improvements.

Capital Improvement Fund - This fund is used to account for the financial resources used for the major capital projects undertaken by the Village other than those accounted for in the Water and Wastewater funds.

Street Levy Capital Replacement Fund - This fund is used to account for property taxes levied for Village street and infrastructure improvements.

***Proprietary Funds*** - The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the proprietary funds are included on the balance sheet. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Village's major enterprise funds are:

Water Fund – This fund is used to account for the operation of the Village's water service.

Wastewater Fund – This fund is used to account for the operation of the Village's sanitary sewer service.

##### **C. Basis of Presentation – Financial Statements**

***Government-wide Financial Statements*** – The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Village that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basis of Presentation – Financial Statements** (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Village and for each function or program of the Village's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Village, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Village.

**Fund Financial Statements** – Fund financial statements report detailed information about the Village. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Village finances and meets the cash flow needs of its proprietary activities.

##### **D. Basis of Accounting**

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2011*

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **D. Basis of Accounting** (Continued)

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the Village is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the Village receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Village must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Village on a reimbursement basis.

Revenues considered susceptible to accrual at year end include income taxes, interest on investments, special assessments and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenues, including licenses, permits, certain charges for services, and miscellaneous revenues, are recorded as revenues when received in cash because generally these revenues are not measurable until received.

Property taxes measurable as of December 31, 2011 but which are not intended to finance 2011 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 6.

The accrual basis of accounting is utilized for reporting purposes by the government-wide statements, proprietary funds and agency funds. Revenues are recognized when earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* the Village follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The Village has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the Village Council.

##### **1. Tax Budget**

By July 15, the Village Manager submits an annual tax budget for the following fiscal year to Village Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

##### **2. Estimated Resources**

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the Village by September 1 of each year. As part of the certification process, the Village receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the Village must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2011.

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process** (Continued)

##### **3. Appropriations**

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Village Council. During 2011, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - for the General and Major Special Revenue Funds" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

##### **4. Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

##### **5. Budgetary Basis of Accounting**

The Village's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

**VILLAGE OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process (Continued)**

**5. Budgetary Basis of Accounting (Continued)**

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General and Major Special Revenue funds:

	Net Change in Fund Balances	
	General Fund	CDBG Fund
GAAP Basis (as reported)	\$36,323	(\$34,232)
Increase (Decrease):		
Accrued Revenues at December 31, 2011 received during 2012	(288,263)	(16,504)
Accrued Revenues at December 31, 2010 received during 2011	262,585	0
Accrued Expenditures at December 31, 2011 paid during 2012	75,224	0
Accrued Expenditures at December 31, 2010 paid during 2011	(82,832)	0
2010 Prepays for 2011	21,462	0
2011 Prepays for 2012	(20,130)	0
Outstanding Encumbrances	(5,909)	0
Perspective Difference:		
Activity of Funds Reclassified for GAAP Reporting Purposes	(3,593)	0
Budget Basis	(\$5,133)	(\$50,736)

**F. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits and the State Treasurer's Asset Reserve (STAR Ohio). STAR Ohio is considered a cash equivalent because of its highly liquid nature.

The Village pools a majority of its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' shares of equity in pooled repurchase agreements and certificates of deposit are considered to be cash equivalents. See Note 5, "Cash, Cash Equivalents and Investments."



## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2011*

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **G. Investments**

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the Village reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit and repurchase agreements) which are reported at cost.

The Village has invested funds in the STAR Ohio during 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2011. See Note 5, "Cash, Cash Equivalents and Investments."

##### **H. Inventory**

On the government-wide financial statements and in the proprietary funds, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

##### **I. Capital Assets and Depreciation**

Capital assets are defined by the Village as assets with an initial, individual cost of more than \$1,000.

##### **1. Property, Plant and Equipment - Governmental Activities**

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

**VILLAGE OF EAST PALESTINE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Capital Assets and Depreciation** (Continued)

1. Property, Plant and Equipment - Governmental Activities (Continued)

Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Property, Plant and Equipment - Business Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

3. Depreciation

All capital assets are depreciated, excluding land and construction in progress. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (in years)</u>
Buildings	30 - 40
Improvements other than Buildings	50
Machinery, Equipment, Furniture and Fixtures	5 - 15
Infrastructure	50 - 100

**VILLAGE OF EAST PALESTINE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Long-Term Obligations**

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
Ohio Water Development Authority Loans	Water Fund, Wastewater Fund
General Obligation Bonds	Water Fund, Wastewater Fund
Ohio Public Works Commission Loan	Capital Improvement Fund Water Fund, Wastewater Fund
Compensated Absences	General Fund, Parks and Recreation Fund Street Construction, Maintenance and Repair Fund Water Fund, Wastewater Fund
West Street Bridget Project Loan	Capital Improvement Fund
Ohio Department of Transportation Loan	Capital Improvement Fund, Street Construction, Maintenance and Repair Fund
Long Term Promissory Note	General Fund, Parks and Recreation Fund, Police Levy Capital Improvement Fund
Capital Leases	General Fund, Capital Improvement Fund

**K. Compensated Absences**

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **K. Compensated Absences** (Continued)

For governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. For governmental funds, the portion of unpaid compensated absences expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." The long-term portion of the liability is reported in the Government-wide Statements under Long-term Liabilities.

Compensated absences are expensed in the Water and Wastewater Funds when earned, and the related liability is reported within the fund.

##### **L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Village applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

##### **M. Pensions**

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

##### **N. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2011*

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **O. Fund Balances**

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Village is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

*Nonspendable* – Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally contractually required to be maintained intact.

*Restricted* – Restricted fund balance consists of amounts that have constraints placed on them either externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Village to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

*Committed* – Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Village's highest level of decision making authority. For the Village, these constraints consist of ordinances and resolutions passed by Village Council. Committed amounts cannot be used for any other purpose unless the Village removes or changes the specified use by taking the same type of action (ordinance, resolution) it employed previously to commit those amounts. The Village has no fund balances reported as committed at December 31, 2011.

*Assigned* – Assigned fund balance consists of amounts that are constrained by the Village's intent to be used for specific purposes, but are neither restricted nor committed.

*Unassigned* – Unassigned fund balance consists of amounts that have not been restricted, committed or assigned to specific purposes within the General Fund as well as negative fund balances in all other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use unrestricted resources first (committed, assigned and unassigned), then restricted resources as they are needed.

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **P. Operating Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Village, these revenues are charges for services for water treatment and distribution and wastewater collection and treatment. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### **Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Village and that are either unusual in nature or infrequent in occurrence. The Village had no extraordinary or special items to report during fiscal year 2011.

#### **NOTE 2 - COMPLIANCE AND ACCOUNTABILITY**

**Fund Deficits** - The fund deficits at December 31, 2011 of \$2,128,244 in the Capital Improvement Fund (capital projects fund) arise from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary/cash basis. The general fund provides transfers when cash is required, not when accruals occur.

## VILLAGE OF EAST PALESTINE, OHIO

### *Notes to the Basic Financial Statements For the Year Ended December 31, 2011*

#### NOTE 3 – FUND BALANCE CLASSIFICATION

Fund balance is classified as nonspendable, restricted, assigned, and unassigned based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General Fund	CDBG Fund	Capital Improvement Fund	Street Levy Capital Replacement Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepaid Items	\$20,130	\$0	\$0	\$0	\$416	\$20,546
Supplies Inventory	0	0	0	0	15,379	15,379
Total Nonspendable	<u>20,130</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>15,795</u>	<u>35,925</u>
Restricted:						
Community Development and Improvement	0	33,199	0	0	0	33,199
Street Capital Improvements	0	0	0	97,787	0	97,787
Street Maintenance and Repair	0	0	0	0	79,150	79,150
Fire Protection	0	0	0	0	6,877	6,877
EMS Training	0	0	0	0	5,940	5,940
Parks and Recreation	0	0	0	0	15,993	15,993
Cemetery Maintenance	0	0	0	0	33,331	33,331
Law Enforcement	0	0	0	0	22,841	22,841
Capital Improvements	0	0	0	0	155,899	155,899
Law Enforcement Capital Improvement	0	0	0	0	47,598	47,598
Total Restricted	<u>0</u>	<u>33,199</u>	<u>0</u>	<u>97,787</u>	<u>367,629</u>	<u>498,615</u>
Assigned:						
Other Purposes	2,528	0	0	0	0	2,528
Total Assigned	<u>2,528</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,528</u>
Unassigned (Deficits):						
	2,623,345	0	(2,128,244)	0	0	495,101
Total Fund Balances	<u>\$2,646,003</u>	<u>\$33,199</u>	<u>(\$2,128,244)</u>	<u>\$97,787</u>	<u>\$383,424</u>	<u>\$1,032,169</u>

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLE – RESTATEMENT OF FUND BALANCE/NET ASSETS**

For 2011 the Village implemented GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”.

Statement No. 54 provides more clearly defined categories to make the nature and extent of the constraints placed on a governments fund balances more transparent. It also clarifies the existing governmental fund type definitions. While the application of this new standard did not have an effect on total prior year fund balances, it did result in the reclassification of funds as detailed below:

	General Fund	Electric Trust Fund	Other Governmental Funds
Fund Balance/Net Assets at December 31, 2010	(\$421,014)	\$3,030,553	\$298,769
Fund Reclassification	<u>3,030,694</u>	<u>(3,030,553)</u>	<u>(141)</u>
Net Assets, as restated	<u><u>\$2,609,680</u></u>	<u><u>\$0</u></u>	<u><u>\$298,628</u></u>

#### **NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds. Statutes require the classification of funds held by the Village into three categories:

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the Village. Such funds must be maintained either as cash in the Village Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.



## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

#### **A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of Village cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Village places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

**VILLAGE OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011**

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**NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**A. Deposits (Continued)**

At year end the carrying amount of the Village's deposits was \$1,055,745 and the bank balance was \$1,079,109. Federal depository insurance covered \$563,275 of the bank balance and \$515,834 was uninsured. Of the remaining uninsured bank balance, the Village was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	\$515,834
Total Balance	\$515,834

Investment earnings of \$458 earned by other funds were credited to the General Fund as required by state statute.

**B. Investments**

The Village's investments at December 31, 2011 are summarized below:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturities (in Years)</u>		
			<u>less than 1</u>	<u>1-3</u>	<u>3-5</u>
STAR Ohio	\$71,078	AAAm <sup>1</sup>	\$71,078	\$0	\$0
Total Investments	\$71,078		\$71,078	\$0	\$0

<sup>1</sup> Standard & Poor's

*Interest Rate Risk* – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

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**VILLAGE OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011**

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**NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**C. Reconciliation of Cash, Cash Equivalents and Investments**

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. STAR Ohio and certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Financial Statements	\$993,941	\$132,882
Certificates of Deposit (with maturities of more than 3 months)	132,882	(132,882)
Investments:		
STAR Ohio	<u>(71,078)</u>	<u>71,078</u>
Per GASB Statement No. 3	<u>\$1,055,745</u>	<u>\$71,078</u>

**NOTE 6 - TAXES**

**A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property and located in the Village. Real property taxes (other than public utility) collected during 2011 were levied after October 1, 2010 on assessed values as of January 1, 2010, the lien date. Assessed values were established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last revaluation was completed in 2006. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder payable by June 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill NO.66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business a railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the Village due to the phasing out of the tax. In calendar years 2006-2010, the Village will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 6 - TAXES (Continued)**

##### **A. Property Taxes** (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the Village of East Palestine. The County Auditor periodically remits to the Village its portion of the taxes collected.

The full property tax rate for all Village operations for the year ended December 31, 2011 was \$13.90 per \$1,000 of assessed value. The assessed value upon which the 2011 tax receipts were based was \$61,660,710. This amount constitutes \$59,143,060 in real property assessed value and \$2,517,650 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the Village's share is 1.39% (13.90 mills) of assessed value.

##### **B. Income Taxes**

The Village levies a tax of 1.0% on all salaries, wages, commissions and other compensation, on net profits earned within the Village and on incomes of residents earned outside the Village. Employers within the Village are required to withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

#### **NOTE 7 - RECEIVABLES**

Receivables at December 31, 2011 consisted of taxes, accounts receivable, interfund loans receivable and intergovernmental receivables.

**VILLAGE OF EAST PALESTINE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011***

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**NOTE 8 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2011:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$0	\$104,972
Capital Improvement Fund	88,972	0
Other Governmental Funds	16,000	0
Totals	<u>\$104,972</u>	<u>\$104,972</u>

**NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES**

The following is a summary of interfund loans receivable and payable for all funds for 2011:

<u>Fund</u>	<u>Interfund Loans Receivable</u>	<u>Interfund Loans Payable</u>
General Fund	\$2,174,136	\$0
Capital Improvement Fund	0	2,139,136
Total Governmental Funds	<u>2,174,136</u>	<u>2,139,136</u>
Water Fund	0	10,000
Wastewater Fund	0	25,000
Total Proprietary Funds	<u>0</u>	<u>35,000</u>
Totals	<u>\$2,174,136</u>	<u>\$2,174,136</u>

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**VILLAGE OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011**

**NOTE 10 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2011:

*Historical Cost:*

Class	December 31, 2010	Additions	Deletions	December 31, 2011
<i>Capital assets not being depreciated:</i>				
Land	\$266,674	\$0	\$0	\$266,674
Construction in Progress	125,858	593,719	0	719,577
Subtotal	<u>392,532</u>	<u>593,719</u>	<u>0</u>	<u>986,251</u>
<i>Capital assets being depreciated:</i>				
Buildings	978,454	0	0	978,454
Improvements Other than Buildings	179,995	0	0	179,995
Machinery and Equipment	2,653,928	73,190	(77,545)	2,649,573
Infrastructure	3,534,630	0	0	3,534,630
Subtotal	<u>7,347,007</u>	<u>73,190</u>	<u>(77,545)</u>	<u>7,342,652</u>
Total Cost	<u><u>\$7,739,539</u></u>	<u><u>\$666,909</u></u>	<u><u>(\$77,545)</u></u>	<u><u>\$8,328,903</u></u>
<i>Accumulated Depreciation:</i>				
Class	December 31, 2010	Additions	Deletions	December 31, 2011
Buildings	(\$379,811)	(\$21,259)	\$0	(\$401,070)
Improvements Other than Buildings	(59,687)	(8,100)	0	(67,787)
Machinery and Equipment	(1,879,153)	(125,004)	69,791	(1,934,366)
Infrastructure	(377,246)	(102,572)	0	(479,818)
Total Depreciation	<u>(\$2,695,897)</u>	<u>(\$256,935) *</u>	<u>\$69,791</u>	<u>(\$2,883,041)</u>
<i>Net Value:</i>	<u><u>\$5,043,642</u></u>			<u><u>\$5,445,862</u></u>

\* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$104,606
Leisure Time Activities	34,620
Transportation	109,630
General Government	8,079
Total Depreciation Expense	<u><u>\$256,935</u></u>

**VILLAGE OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011**

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**NOTE 10 - CAPITAL ASSETS (Continued)**

**B. Business-Type Activities Capital Assets**

Summary by Category at December 31, 2011:

*Historical Cost:*

Class	December 31, 2010	Additions	Deletions	December 31, 2011
<i>Capital assets not being depreciated:</i>				
Land	\$177,511	\$0	\$0	\$177,511
Construction in Progress	161,762	358,863	0	520,625
Subtotal	<u>339,273</u>	<u>358,863</u>	<u>0</u>	<u>698,136</u>
<i>Capital assets being depreciated:</i>				
Buildings	1,973,207	0	0	1,973,207
Improvements Other than Buildings	452,160	0	0	452,160
Machinery and Equipment	1,287,612	107,314	(19,176)	1,375,750
Infrastructure	11,167,067	0	0	11,167,067
Subtotal	<u>14,880,046</u>	<u>107,314</u>	<u>(19,176)</u>	<u>14,968,184</u>
Total Cost	<u><u>\$15,219,319</u></u>	<u><u>\$466,177</u></u>	<u><u>(\$19,176)</u></u>	<u><u>\$15,666,320</u></u>

*Accumulated Depreciation:*

Class	December 31, 2010	Additions	Deletions	December 31, 2011
Buildings	(\$1,331,065)	(\$49,332)	\$0	(\$1,380,397)
Improvements Other than Buildings	(288,805)	(8,879)	0	(297,684)
Machinery and Equipment	(1,271,930)	(16,860)	18,952	(1,269,838)
Infrastructure	(3,079,846)	(243,007)	0	(3,322,853)
Total Depreciation	<u>(\$5,971,646)</u>	<u>(\$318,078)</u>	<u>\$18,952</u>	<u>(\$6,270,772)</u>
<i>Net Value:</i>	<u><u>\$9,247,673</u></u>			<u><u>\$9,395,548</u></u>

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## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2011*

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#### **NOTE 11 – DEFINED BENEFIT PENSION PLANS**

All of the Village's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

##### **A. Ohio Public Employees Retirement System ("OPERS")**

The following information was provided by OPERS to assist the Village in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the Village, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by OPERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for OPERS. Interested parties may obtain a copy by making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The ORC provides statutory authority for employee and employer contributions. For 2011, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 10.0%. The 2011 employer contribution rate for local government employer units was 14.00%, of covered payroll which is the maximum contribution rate set by State statutes. Employer contribution rates are actuarially determined. A portion of the Village's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The portion of employer contributions allocated to pension obligations for members in the Traditional Plan was 10.0% for calendar year 2011. The portion of employer contributions allocated to pension obligations for members in the Combined Plan was 7.95% for calendar year 2011. The contribution requirements of plan members and the Village are established and may be amended by the OPERS Board. The Village's required contributions for pension obligations to OPERS for the years ending December 31, 2011, 2010, and 2009 were \$92,446, \$83,671 and \$76,864, respectively, which were equal to the required contributions for each year. Contributions to the member-directed plan for 2011 were \$2,184 made by the Village and \$1,560 made by the plan members.



## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

##### **B. Ohio Police and Fire Pension Fund (“OP&F”)**

All Village full-time police officers and full-time firefighters participate in OP&F, a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the ORC. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. A portion of the Village’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for 2011, 12.75% of annual covered salary for police and 17.25% of annual covered salary for firefighters, respectively, were the portions used to fund pension obligations. The Village's contributions for pension obligations to the OP&F Fund for the years ending December 31, 2011, 2010, and 2009 were \$38,081, \$37,001 and \$36,100 for police and \$9,189, \$9,124 and \$9,418 for firefighters, respectively, which were equal to the required contributions for each year.

#### **NOTE 12 - POSTEMPLOYMENT BENEFITS**

##### **A. Ohio Public Employees Retirement System (“OPERS”)**

Plan Description – OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B Premium reimbursement, to qualifying member of both the Traditional Pension and the Combined Plans. Members of the Member Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the ORC.

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)**

##### **A. Ohio Public Employees Retirement System (“OPERS”) (Continued)**

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

The OPERS Postemployment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% for calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% for calendar year 2011. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Village's contributions for health care to the OPERS for the years ending December 31, 2011, 2010, and 2009 were \$36,979, \$47,700 and \$55,579, respectively, which were equal to the required contributions for each year.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

##### **B. Ohio Police and Fire Pension Fund (“OP&F”)**

Plan Description – The Village contributes to the OP&F sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2011*

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#### NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

##### **B. Ohio Police and Fire Pension Fund (“OP&F”)** (Continued)

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

The ORC permits, but does not mandate, OP&F to provide OPEB benefits. Authority to establish and amend benefits is provided in Chapter 742 of the ORC.

OP&F issues a stand-alone financial report that includes financial information and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The ORC provides for contribution requirements of the participating employers and of plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The ORC states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees’ primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Village's contributions for health care to the OP&F for the years ending December 31, 2011, 2010, and 2009 were \$20,161, \$19,589 and \$19,112 for police and \$3,596, \$3,570 and \$3,685 for firefighters, respectively, which were equal to the required contributions for each year.

## VILLAGE OF EAST PALESTINE, OHIO

### Notes to the Basic Financial Statements For the Year Ended December 31, 2011

#### NOTE 13 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the Village at December 31, 2011 were as follows:

		Balance December 31, 2010	Additions	Deductions	Balance December 31, 2011	Amount Due Within One Year
<b>Governmental Activities:</b>						
Ohio Public Works Commission Loans:						
Bridge Replacement	2005	\$148,000	\$0	(\$8,000)	\$140,000	\$8,000
Roadway Improvements	2010	125,858	0	0	125,858	7,866
Total OPWC Loans:		273,858	0	(8,000)	265,858	15,866
West Street Bridge Project Loan	2009	264,792	0	(12,567)	252,225	13,258
Ohio Department of Transportation						
Street Improvement Loan	2005	452,088	0	(85,114)	366,974	87,687
Long Term Promissory Notes:						
City Hall Building	2008	48,188	0	(2,611)	45,577	2,759
Vehicle Purchase	2010	60,000	0	(30,000)	30,000	30,000
Vehicle Purchase	2010	0	61,000	(5,651)	55,349	11,590
Total Long Term Promissory Notes		108,188	61,000	(38,262)	130,926	44,349
Capital Leases		4,269	0	(4,269)	0	0
Compensated Absences Payable		228,297	155,517	(228,297)	155,517	38,103
Total Governmental Activities		1,331,492	216,517	(376,509)	1,171,500	199,263
<b>Business-Type Activities:</b>						
General Obligation Bonds:						
Various Purpose Bond	1999	1,225,000	0	(1,225,000)	0	0
Sewerage System Refunding Bond	2003	1,855,000	0	(1,855,000)	0	0
Various Purpose Refunding Bond	2011	0	1,280,000	(145,000)	1,135,000	150,000
Sewerage System Refunding Bond	2011	0	1,905,000	0	1,905,000	75,000
Total General Obligation Bonds:		3,080,000	3,185,000	(3,225,000)	3,040,000	225,000
Ohio Public Works Commission Loans:						
Phase Five Sanitary Sewer	2005	404,250	0	(26,950)	377,300	26,950
Brookdale Water	2007	100,697	0	(3,534)	97,163	3,534
Brookdale Sewer	2007	234,963	0	(8,244)	226,719	8,244
Total OPWC Loans:		739,910	0	(38,728)	701,182	38,728
Ohio Water Development Authority Loans:						
Water Treatment Plant	1992	83,046	0	(41,524)	41,522	41,522
Sewer Project - Phase Two	1999	655,189	0	(62,731)	592,458	64,117
Wastewater Treatment Plant	2004	1,822,429	0	(113,196)	1,709,233	114,330
Waterline Extension	2007	85,977	0	(1,724)	84,253	1,792
Sewer Line Extension	2007	57,165	0	(1,146)	56,019	1,192
Jimtown Reservoir	2009	62,155	2,555	(3,000)	61,710	0
WWTP Phosphorous Reduction	2010	48,764	0	(2,563)	46,201	0
WWTP Phosphorous Reduction	2011	0	225,065	0	225,065	0
Total OWDA Loans:		2,814,725	227,620	(225,884)	2,816,461	222,953
Capital Leases		0	85,064	(17,572)	67,492	16,012
Compensated Absences		101,909	152,688	(101,909)	152,688	20,175
Total Business-Type Activities		6,736,544	3,650,372	(3,609,093)	6,777,823	522,868
Totals		\$8,068,036	\$3,866,889	(\$3,985,602)	\$7,949,323	\$722,131

**VILLAGE OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011**

**NOTE 13 - LONG-TERM OBLIGATIONS (Continued)**

**A. Principal and Interest Requirements**

A summary of the Village's future long-term debt funding requirements, including principal and interest payments as of December 31, 2011 follows:

<b>Governmental Activities</b>								
Years	OPWC Loan		West Street Bridge Loan		ODOT Loan		Promissory Note	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$15,866	\$0	\$13,258	\$13,872	\$87,687	\$10,357	\$44,349	\$5,165
2013	15,866	0	13,988	13,143	90,338	7,706	54,802	3,563
2014	15,866	0	224,979	12,374	93,068	4,975	12,392	875
2015	15,866	0	0	0	95,881	2,162	12,813	454
2016	15,866	0	0	0	0	0	6,570	64
2017-2021	79,330	0	0	0	0	0	0	0
2022-2026	79,330	0	0	0	0	0	0	0
2027-2031	27,868	0	0	0	0	0	0	0
2032-2038	0	0	0	0	0	0	0	0
Totals	<u>\$265,858</u>	<u>\$0</u>	<u>\$252,225</u>	<u>\$39,389</u>	<u>\$366,974</u>	<u>\$25,200</u>	<u>\$130,926</u>	<u>\$10,121</u>

<b>Business-Type Activities</b>								
Years	General Obligation Bonds		OWDA Loans		OPWC Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$225,000	\$112,823	\$222,953	\$40,870	\$38,728	\$0	\$647,841	\$183,087
2013	225,000	106,188	245,823	46,135	38,728	0	684,545	176,735
2014	235,000	100,000	250,900	40,424	38,728	0	870,933	158,648
2015	235,000	93,138	256,122	34,546	38,728	0	654,410	130,300
2016	250,000	86,276	261,495	28,106	38,728	0	572,659	114,446
2017-2021	615,000	317,680	961,772	78,758	193,640	0	1,849,742	396,438
2022-2026	725,000	211,566	536,835	30,192	166,690	0	1,507,855	241,758
2027-2031	530,000	66,876	29,056	12,089	58,890	0	645,814	78,965
2032-2038	0	0	51,505	9,290	88,322	0	139,827	9,290
Totals	<u>\$3,040,000</u>	<u>\$1,094,547</u>	<u>\$2,816,461</u>	<u>\$320,410</u>	<u>\$701,182</u>	<u>\$0</u>	<u>\$7,573,626</u>	<u>\$1,489,667</u>

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**VILLAGE OF EAST PALESTINE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011***

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**NOTE 13 - LONG-TERM OBLIGATIONS (Continued)**

**B. Defeased Debt**

In February 2003, the Village defeased \$2,236,000 of FHA Loans for Sewer Improvements through the issuance of \$2,235,000 of General Obligation Bonds for Sewer System Improvements. The net proceeds of the 2003 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$1,866,000 at December 31, 2011, are not included in the Village's outstanding debt since the Village has in-substance satisfied its obligations through the advance refunding.

In December 2011, the Village defeased \$1,225,000 of General Obligation Bonds dated February 1999 through the issuance of \$1,280,000 of General Obligation Bonds for Water and Sewer System Improvements. The net proceeds of the 2011 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$1,095,000 at December 31, 2011, are not included in the Village's outstanding debt since the Village has in-substance satisfied its obligations through the advance refunding.

In December 2011, the Village defeased \$1,800,000 of General Obligation Bonds dated July 2003 through the issuance of \$1,905,000 of General Obligation Bonds for Sewer System Improvements. The net proceeds of the 2011 bonds were used to currently refund the 2003 bonds.

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## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 14 - CAPITAL LEASES**

The Village leases a loader under a capital lease. The original cost of the equipment and the related liability are reported on the Proprietary Fund Statement of Net Assets and Government – wide Statement of Net Assets.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2011:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2012	\$18,375
2013	18,375
2014	18,375
2015	<u>18,375</u>
Minimum Lease Payments	<u>73,500</u>
Less amount representing interest at the City's incremental borrowing rate of interest	<u>(6,008)</u>
Present value of minimum lease payments	<u><u>\$67,492</u></u>

#### **NOTE 15 - INSURANCE AND RISK MANAGEMENT**

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village is a participant in the Public Entities Pool of Ohio (the "Pool"). The Pool was established in 1987 and is administered under contract by Wells Fargo Insurance Services USA, Inc. to provide a program of Property and Casualty Insurance for its municipality members.

The Pool's general objectives are to formulate, develop and administer a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program on behalf of the member political subdivisions. Political subdivisions joining the Pool may withdraw at the end of any coverage period upon 60 days prior written notice to the Pool. Under agreement, members who terminate participation in the Pool as well as current members are subject to a supplemental assessment or a refund, at the discretion of the Board of Trustees, depending on the ultimate loss experience of all the entities it insures for each coverage year. To date, there has been no assessments or refunds, due to the limited period of time that the Pool has been in existence and the nature of the coverage that is afforded to the participants.

The Village of East Palestine obtained insurance coverage from the Pool from 2000 to the present for losses related to general liability, public official's liability, automobile, law enforcement liability, medical malpractice liability, and employee benefits liability.

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 15 - INSURANCE AND RISK MANAGEMENT (Continued)**

Each participant makes an annual “contribution” to the Pool for the coverage they are provided, based on rates established by the Pool, using anticipated and actual results of operation for the various coverages provided. Participants are also charged for a “surplus contribution” that is used to build the Pool’s retained earning account to fund the activities of the Pool. During 2011, the Village of East Palestine made contributions to the Pool totaling \$56,819.

In the ordinary course of business, the Pool cedes a portion of its exposure to other insurers. These arrangements limit the Pool’s maximum net loss on individual risks.

The Pool is, and ultimately the participants are, contingently liable should any reinsurer become unable to meet its obligations under the reinsurance agreements.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

Worker’s Compensation claims are covered through the Village’s participation in the State of Ohio’s program. The Village pays the State Worker’s Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

#### **NOTE 16 - CONTINGENCIES**

The Village is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The Village's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the Village.

#### **NOTE 17 - CONSTRUCTION COMMITMENTS**

The Village had the following contractual commitments at December 31, 2011:

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Expected Date of Completion</u>
Jimtown Reservoir	\$450,283	2012
Stacey, Howell Booster Pump	37,853	2012



**WOLFE, WILSON, & PHILLIPS, INC.  
37 SOUTH SEVENTH STREET  
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of East Palestine  
Columbiana County  
144 North Market Street  
East Palestine, Ohio 44413

To the Village Council:

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village of East Palestine as of and for the year ended December 31, 2011, which collectively comprise the Village's basic financial statements and have issued our report thereon dated May 2, 2012. We also noted the Village adopted Governmental Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and timely correct misstatements. A material weakness is a deficiency, or a combination of deficiencies resulting in more than a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village of East Palestine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standard*.

We did note certain matters not requiring inclusion in this report that we reported the Village of East Palestine management in a separate letter dated May 2, 2012.

We intend this report solely for the information and use of management, the Auditor of State and federal awarding agencies and pass-through entities and others within the government. We intend it for no one other than these specified parties.

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
May 2, 2012

**WOLFE, WILSON, & PHILLIPS, INC.  
37 SOUTH SEVENTH STREET  
ZANESVILLE, OHIO 43701**

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL  
CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Village of East Palestine  
Columbiana County  
144 North Market Street  
East Palestine, Ohio 44637

To the Village Council:

**Compliance**

We have audited the compliance of the Village of East Palestine with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could directly and materially affect each of the Village of East Palestine's major federal programs for the year ended December 31, 2011. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Village's major federal programs. The Village of East Palestine's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major program. Our responsibility is to opine on the Village's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether occurred with the compliance requirements referred to above that could directly and materially effect a major federal program. An audit includes examining, on a test basis, evidence about the Village of East Palestine's compliance with these requirements and performing other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village of East Palestine's compliance with these requirements.

In our opinion, the Village of East Palestine complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2011.

**Internal Control Over Compliance**

The Village of East Palestine's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Village of East Palestine's internal control over compliance with requirements that could directly and materially affect on a major federal program, to determine our auditing procedures for the purpose of opining on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Village of East Palestine's internal control over compliance.

### **Internal Control Over Compliance (Continued)**

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent or to detect and timely correct noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### **Schedule of Federal Award Expenditures**

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregated remaining fund information of Village of East Palestine as of and for the year ended December 31, 2011, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated May 2, 2012. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The accompanying schedule of federal award expenditures is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We intend this report solely for the information and use of management, the Auditor of State and federal awarding agencies and pass-through entities and others within the government. We intend it for no one other than these specified parties.

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
May 2, 2012

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A – 133 SECTION .505**

**VILLAGE OF EAST PALESTINE  
DECEMBER 31, 2011**

**1. AUDITOR'S RESULTS**

<i>(d)(1)(I)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(II)</i>	Were there any other significant deficiencies In internal control reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	NO
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies In internal control reported for major federal programs?	NO
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under section .510?	NO
<i>(d)(1)(vii)</i>	Major Programs (List):	HOME #14.239 Highway Planning #20.205
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	NO

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

NONE

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE

**VILLAGE OF EAST PALESTINE  
COLUMBIANA COUNTY  
SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Federal Grantor/ Sub-Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u></b>				
(pass through Ohio Department of Development)				
Community Development Block Grant	A-C-09-2BI-1	14.228	9,496	64,147
			9,496	64,147
HOME Investment Partnership Program	A-C-09-2BI-2	14.239	258,313	254,398
			258,313	254,398
<b>Total U.S. Department of Housing and Urban Development</b>			267,809	318,545
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>				
(pass through Ohio Department of Transportation)				
Highway Planning and Construction	PID 38206	20.205	268,892	268,892
<b>Total U.S. Department of Transportation</b>			268,892	268,892
<b>Total Federal Awards Expenditures</b>			<b>536,701</b>	<b>587,437</b>

See notes to Schedule of Federal Awards Expenditures.

**VILLAGE OF EAST PALESTINE  
COLUMBIANA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards expenditures is a summary of the activity of the Village's federal awards programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - MATCHING REQUIREMENTS**

Certain Federal programs require the Village contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Village has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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# Dave Yost • Auditor of State

VILLAGE OF EAST PALESTINE

COLUMBIANA COUNTY

## CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JULY 03, 2012